FINANCIAL STATEMENTS

SaskEnergy Incorporated and Subsidiaries
December 31, 2010

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SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

Independent Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respect, the financial position of SaskEnergy Incorporated and its subsidiaries as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 24, 2011

SASKENERGY INCORPORATED
Consolidated Statement of Financial Position
As at December 31
(millions of dollars)

	Notes	2010	2009
Assets			
Current assets			
Cash		$ 1	$ -
Accounts receivable	4	113	128
Natural gas in storage held for resale	5	247	258
Inventories of supplies	6	8	9
Debt retirement funds	7	-	9
Fair value of derivative instruments	8	79	52
		448	456
Intangible assets	9	18	15
Property, plant and equipment	10	1,057	1,004
Natural gas in storage held for resale and operations	5	33	34
Debt retirement funds	7	59	48
Investments	11	29	30
		$ 1,644	$ 1,587
Liabilities and Province's Equity			
Current liabilities			
Bank indebtedness		$ -	$ 1
Short-term debt	12	239	108
Accounts payable	13	135	141
Dividends payable		22	21
Current portion of long-term debt	14	-	80
Fair value of derivative instruments	8	63	38
		459	389
Asset retirement obligations	15	8	8
Long-term debt	14	715	715
		1,182	1,112
Province of Saskatchewan's equity			
Retained earnings		394	406
Accumulated other comprehensive loss	16	(4)	(3)
		390	403
Equity advances	17	72	72
		462	475
		$ 1,644	$ 1,587
Commitments and contingencies	18		

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED

Consolidated Statement of Income and Retained Earnings

Years ended December 31
(millions of dollars)

	Notes	2010	2009
Revenue			
Commodity sales		$ 276	$ 451
Gas marketing sales		386	446
Delivery		185	184
Transportation and storage		77	80
Revenue collected for municipalities	19	19	26
Other	20	9	10
		952	1,197
Expenses			
Commodity cost of gas sold		306	418
Gas marketing cost of gas sold		329	417
Operating and maintenance		156	148
Interest	21	37	43
Amortization	22	59	57
Payment to municipalities	19	19	26
Saskatchewan taxes	23	9	8
		915	1,117
Net income from continuing operations		37	80
Gain on sale of investment	24	-	8
Net income from discontinued operations	24	-	5
Net income		37	93
Retained earnings, beginning of year		406	364
Dividends		(49)	(51)
Retained earnings, end of year		$ 394	$ 406

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Comprehensive Income
Years ended December 31
(millions of dollars)

	2010	2009
Net income	$ 37	$ 93
Other comprehensive loss		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(1)	-
Comprehensive income	$ 36	$ 93

SASKENERGY INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss
Years ended December 31
(millions of dollars)

	2010	2009
Accumulated other comprehensive loss, beginning of year	$ (3)	$ (3)
Other comprehensive loss	(1)	-
Accumulated other comprehensive loss, end of year	$ (4)	$ (3)

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Cash Flows
Years ended December 31
(millions of dollars)

	Notes	2010	2009
Operating Activities			
Net income		$ 37	$ 93
Add (deduct) items not requiring an outlay of cash			
Amortization	22	59	57
Revaluation of natural gas in storage held for resale	5	21	-
Change in fair value of derivative instruments	8	(2)	(31)
Debt retirement funds earnings	7	(4)	(3)
Change in fair value of debt retirement funds	7	(1)	1
Equity earnings	20	-	(3)
Gain on sale of investment	24	-	(8)
		110	106
Net change in non-cash working capital related to operations	25	(6)	(25)
Decrease in natural gas in storage - non-current		1	1
Cash provided by operating activities from continuing operations		105	82
Cash used in discontinued operations	24	-	(7)
Cash provided by operating activities		105	75
Investing Activities			
Additions to property, plant and equipment		(132)	(128)
Capital contributions and deposits received		31	31
Additions to intangible assets		(8)	(2)
Proceeds on sale of investment	24	-	73
Cash used in investing activities		(109)	(26)
Financing Activities			
(Decrease) increase in bank indebtedness		(1)	1
Increase (decrease) in short-term debt		131	(55)
Proceeds from long-term debt		-	83
Repayments of long-term debt		(80)	(39)
Debt retirement funds installments	7	(7)	(7)
Debt retirement funds redemptions	7	10	-
Dividends paid		(48)	(36)
Cash provided by (used in) financing activities		5	(53)
Increase (decrease) in cash during the year		1	(4)
Cash position, beginning of year		-	4
Cash position, end of year		$ 1	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries: Bayhurst Gas Limited, Bayhurst Energy Services Corporation, BG Storage Inc., Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility, each an unincorporated joint venture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The impact of rate regulation on the application of GAAP is described in note 28. The following accounting policies are considered to be significant:

a. Use of estimates

In the application of the Corporation's accounting policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. Significant areas requiring the use of estimates and assumptions include revenue recognition related to unbilled revenue, net realizable value of natural gas in storage held for resale, fair value of financial and derivative instruments, service lives and amortization rates of property, plant and equipment and intangible assets, employee future benefits and underlying actuarial assumptions and future costs of decommissioning liabilities. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

b. Natural gas in storage

Natural gas in storage is valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices based on anticipated delivery dates.

2. Summary of Significant Accounting Policies (continued)

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are valued at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value.

d. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired, at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount of the financial instrument.

The Corporation utilizes a variety of derivative instruments to manage its exposure to interest rate, foreign exchange rate and natural gas price risk. Derivatives are initially recognized at fair value at the date the derivative contract is entered.

Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges. For interest rate swaps used to hedge long-term debt, the effective portion of changes in the fair value is recognized in other comprehensive income, while any gains and losses related to the ineffective portion are recognized immediately in interest expense. Amounts previously recognized in other comprehensive income are reclassified to net income as interest expense when the hedged debt is settled. For foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency, gains or losses are recognized in other comprehensive income and reclassified to net income as amortization expense over the life of the related asset.

Derivative instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 8c.

Derivatives may be embedded in other instruments. The Corporation utilizes natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers. Embedded derivatives are recorded at fair value on the statement of financial position with subsequent changes recognized in net income.

2. Summary of Significant Accounting Policies (continued)

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy, based on the amount of observable inputs:

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. The Corporation uses Level 2 inputs for all its recurring fair value measurements, including debt retirement funds and derivative instruments.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair value also reflects the credit risk of the instrument and includes adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

e. Intangible assets

Intangible assets are computer software and are stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are 8.3 to 20.0 per cent.

f. Property, plant and equipment

Property, plant and equipment is stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing construction of the assets. The costs of renewals and betterments that extend the service life of an asset are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by removing the cost of the asset and the related accumulated amortization. The difference between the proceeds and the carrying amount of the asset is included in net income. Other asset retirements are accounted for by removing the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates (per cent) are as follows:

Distribution	2.1 to 4.0
Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 16.4
Computer hardware	20.0 to 33.3

2. Summary of Significant Accounting Policies (continued)

Customer capital contributions are paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established policies. These contributions from customers are netted against property, plant and equipment and are amortized on a straight-line basis over the estimated service life of the related asset.

g. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss.

h. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred, provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated service life of the related asset.

i. Revenue recognition

i. Delivery and commodity

Revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered but not billed is included in revenue.

ii. Gas marketing

Revenue is recognized when natural gas is delivered to customers. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale and assuming the risks and rewards of ownership.

iii. Transportation and storage

Revenue is recognized when transportation, storage and related services are provided to customers. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

iv. Other

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to customers. Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to customers.

2. Summary of Significant Accounting Policies (continued)

j. Cost of gas sold

Cost of gas sold includes the cost of purchasing natural gas in the open market, financial and derivative instrument settlements, fair value adjustments on financial and derivative instruments, transportation, direct operating costs related to supply acquisition and natural gas inventory carrying costs. Cost of gas sold also includes the revaluation and subsequent reversal of natural gas in storage held for resale, if any.

k. Employee future benefits

i. Pension plans

Eligible employees of the Corporation are members of either a defined contribution pension plan or a defined benefit pension plan. Under both multiemployer plans, the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are recognized in net income.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Any actuarial gains or losses are recognized in net income.

l. Future accounting policy changes

The Canadian Institute of Chartered Accountants has confirmed that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRS for the quarter ending March 31, 2011, along with comparative figures. The Corporation will also provide an opening balance sheet as at January 1, 2010, the date of transition to IFRS.

3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (2009 - $1,300 million). At year end, SaskEnergy had $954 million of debt outstanding (2009 - $904 million) and authority to borrow an additional $161 million of temporary loans (2009 - $292 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2009 - $35 million).

3. Capital Disclosure (continued)

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). SaskEnergy's borrowing requirements constitute a minor portion of the Province's total borrowings. Given the Province's strong credit rating, the Corporation was able to acquire all of its funding requirements during the year.

The Corporation monitors capital on the basis of the debt ratio. The long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. The purpose of this strategy is to ensure that SaskEnergy's debt is self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2010	2009
	(millions)	
Long-term debt	$ 715	$ 795
Short-term debt	239	108
Bank indebtedness	-	1
Debt retirement funds	(59)	(57)
Cash	(1)	-
Total net debt	894	847
Equity advances	72	72
Retained earnings	394	406
Total capital	$ 1,360	$ 1,325
	65.7%	63.9%

SaskEnergy complied with all externally imposed requirements on its capital for the year.

4. Accounts Receivable

	2010	2009
	(millions)	
Unbilled revenue	$ 58	$ 71
Trade accounts	50	47
Other receivables	6	11
	114	129
Allowance for doubtful accounts	(1)	(1)
	$ 113	$ 128

5. Natural Gas in Storage

The cost of natural gas in storage recognized as cost of gas sold during the year was $519 million (2009 - $695 million).

With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. A $21 million revaluation of natural gas in storage to net realizable value was recorded during the year (2009 - $nil). If natural gas prices rise in the future, there will be a reversal of the revaluation. The revaluation of natural gas in storage is included in cost of gas sold. There was no reversal of any prior year revaluation during the year.

6. Inventories of Supplies

During the year, $29 million of inventories of supplies (2009 - $25 million) were recognized as operating and maintenance expense. There was no revaluation of inventories of supplies and no reversal of any prior revaluation during the year.

7. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 6.4 per cent for the year (2009 - 5.4 per cent).

The change in the carrying amount of debt retirement funds during the year was as follows:

	2010	2009
	(millions)	
Debt retirement funds, beginning of year	$ 57	$ 48
Installments	7	7
Redemptions	(10)	-
Earnings	4	3
Change in fair value	1	(1)
Debt retirement funds, end of year	$ 59	$ 57

As at December 31, 2010 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

	2011	2012	2013	2014	2015
			(millions)		
Installments	$ 7	$ 7	$ 7	$ 6	$ 6

8. Financial Instruments and Risk Management

a. Financial instruments

	Classification	2010 Carrying Amount	2010 Fair Value	2009 Carrying Amount	2009 Fair Value
		(millions)			
Financial assets					
Cash	HFT	$ 1	$ 1	$ -	$ -
Accounts receivable	LAR	113	113	128	128
Debt retirement funds	HFT	59	59	57	57
Financial liabilities					
Bank indebtedness	HFT	-	-	1	1
Short-term debt	OL	239	239	108	108
Accounts payable	OL	135	135	141	141
Dividends payable	OL	22	22	21	21
Long-term debt	OL	715	839	795	889

Classification details:
HFT - held-for-trading
HTM - held-to-maturity
LAR - loans and receivables
AFS - available-for-sale
OL - other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Other financial instruments - The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable, approximate their carrying amounts due to the short-term nature of these instruments.

8. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using the Garman-Kohlhagen model, which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices that are based on external market sources.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

As at December 31, 2010 natural gas derivative instruments had the following fair values, notional values and maturities:

	2011	2012	2013	2014	2015	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ -	$ 1	$ 1	$ 2	$ -	$ 4
Notional value	(111)	11	3	13	3	(81)
Natural gas price swaps						
Fair value	(4)	5	10	1	-	12
Notional value	(4)	5	11	1	-	13
Total						
Fair value	$ (4)	$ 6	$ 11	$ 3	$ -	$ 16
Notional value	$ (115)	$ 16	$ 14	$ 14	$ 3	$ (68)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

The fair value of the Corporation's derivative instruments is presented on the consolidated statement of financial position as follows:

	2010	2009
	(millions)	
Fair value of derivative instrument assets	$ 79	$ 52
Fair value of derivative instrument liabilities	(63)	(38)
	$ 16	$ 14

8. Financial Instruments and Risk Management (continued)

c. Fair value of financial and derivative instruments

As at December 31, 2010 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

	Level 1	Level 2	Level 3	Total
		(millions)		
Debt retirement funds	$ -	$ 59	$ -	$ 59
Fair value of derivative instrument assets	-	79	-	79
Fair value of derivative instrument liabilities	-	(63)	-	(63)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. The increase (decrease) in net income of these unrealized gains and losses was as follows:

	2010	2009
	(millions)	
Derivative instruments		
Gas marketing sales	$ 30	$ 7
Commodity cost of gas sold	(30)	21
Gas marketing cost of gas sold	2	3
	2	31
Financial instruments		
Gas marketing cost of gas sold	-	(1)
Interest expense	1	(1)
	$ 3	$ 29

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk, interest rate risk and foreign currency risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior year.

8. Financial Instruments and Risk Management (continued)

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's year-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $29 million (2009 - $1 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $29 million (2009 - $1 million).

ii. Interest rate risk

For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. The Corporation did not enter into or settle any such instruments during the year or the comparative year.

The Corporation's significant interest-bearing financial instruments are short- and long-term debts, which are fixed rate instruments. Consequently, the Corporation is subject to interest rate risk when issuing debt or refinancing maturities. At year end, the Corporation had $239 million of short-term debt that may be refinanced in 2011 and no long-term debt maturing in 2011 (2009 - $188 million). Based on these amounts, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $2 million (2009 - $2 million).

iii. Foreign currency risk

The Corporation faces exposure to foreign currency risk primarily through the purchase of goods and services. For the purpose of managing the foreign currency risk on significant expenditures denominated in foreign currency, the Corporation may use currency forwards and currency options. During the year, the impact of these instruments on net income was $nil (2009 - $nil).

8. Financial Instruments and Risk Management (continued)

iv. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2010:

		Contractual Maturities				
	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
		(millions)				
Short-term debt	$ 239	$ 239	$ -	$ -	$ -	$ 239
Accounts payable	135	135	-	-	-	135
Dividends payable	22	22	-	-	-	22
Derivative instruments	63	115	-	-	-	115
Long-term debt	715	38	88	250	821	1,197
	$ 1,174	$ 549	$ 88	$ 250	$ 821	$ 1,708

At year end, SaskEnergy's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund contractual obligations.

v. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single counterparty was $21 million (2009 - $14 million).

8. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2010	2009
	(millions)	
Cash	$ 1	$ -
Accounts receivable	113	128
Debt retirement funds	59	57
Fair value of derivative instrument assets	79	52
	$ 252	$ 237

The following reflects an aging summary of the Corporation's accounts receivable:

	2010	2009
	(millions)	
Current	$ 107	$ 124
30 - 59 days	5	3
60 - 89 days	1	1
Greater than 90 days	1	1
	114	129
Allowance for doubtful accounts	(1)	(1)
	$ 113	$ 128

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. The change in the allowance for doubtful accounts in respect of accounts receivable during the year was as follows:

	2010	2009
	(millions)	
Allowance for doubtful accounts, beginning of year	$ 1	$ 1
Provision	-	2
Recoveries	2	2
Write-offs	(2)	(4)
Allowance for doubtful accounts, end of year	$ 1	$ 1

9. Intangible Assets

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	(millions)					
Computer software	$ 51	$ 41	$ 10	$ 49	$ 36	$ 13
Work in progress	8	-	8	2	-	2
	$ 59	$ 41	$ 18	$ 51	$ 36	$ 15

During the year, the Corporation acquired $1 million (2009 - $1 million) and developed $7 million (2009 - $1 million) of intangible assets.

10. Property, Plant and Equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	(millions)					
Distribution	$ 797	$ 285	$ 512	$ 755	$ 263	$ 492
Transmission and storage	794	284	510	752	263	489
Gathering, treatment and compression	212	90	122	186	84	102
Vehicles, equipment and other	106	50	56	104	49	55
Computer hardware	29	19	10	26	16	10
Construction in progress	60	-	60	50	-	50
	$1,998	$ 728	1,270	$1,873	$ 675	1,198
Unamortized customer capital contributions			213			194
			$1,057			$1,004

10. Property, Plant and Equipment (continued)

The change in customer capital contributions during the year was as follows:

	2010	2009
	(millions)	
Unamortized customer capital contributions, beginning of year	$ 194	$ 181
Contributions received	25	17
Amortization of contributions	(6)	(4)
Unamortized customer capital contributions, end of year	$ 213	$ 194

11. Investments

	2010		2009	
	Amount (millions)	Ownership (per cent)	Amount (millions)	Ownership (per cent)
Gas Sur S.A.				
Initial investment	$ 14	30.0	$ 14	30.0
Accumulated share of net income	3		4	
Accumulated foreign currency translation adjustment	(1)		(1)	
	16		17	
IGASAMEX USA Ltd.				
Initial investment	11	40.1	11	40.1
Accumulated share of net income	6		5	
Accumulated foreign currency translation adjustment	(4)		(3)	
	13		13	
	$ 29		$ 30	

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2010 net loss was $1 million (2009 - $1 million net income), which was included in other revenue. The Corporation's foreign currency translation adjustment for the year resulted in a $nil change in the balance of the investment in Gas Sur S.A. (2009 - $2 million increase). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million.

11. Investments (continued)

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2010 net income was $1 million (2009 - $2 million), which was included in other revenue. The Corporation's foreign currency translation adjustment for the year resulted in a $1 million decrease in the balance of the investment in IGASAMEX USA Ltd. (2009 - $2 million decrease). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million.

12. Short-Term Debt

During the year, SaskEnergy borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 1.1 per cent (2009 - 0.5 per cent).

At year end, short-term debt of $239 million (2009 - $108 million) was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.1 per cent (2009 - 0.3 per cent).

13. Accounts Payable

	2010	2009
	(millions)	
Supplier payables	$ 63	$ 60
Interest payable	7	8
Customer deposits	27	21
Other payables	38	52
	$ 135	$ 141

14. Long-Term Debt

	2010		2009	
	Principal Outstanding (millions)	Average Fixed Interest Rate (per cent)	Principal Outstanding (millions)	Average Fixed Interest Rate (per cent)
General Revenue Fund				
1 - 5 years	$ 200	4.3	$ 230	5.0
6 - 10 years	226	4.8	242	4.5
11 - 15 years	75	8.8	34	6.7
16 - 20 years	50	5.7	125	7.5
21 - 25 years	60	6.4	60	6.4
26 - 30 years	100	5.1	25	5.0
31 plus years	-		75	5.2
	711		791	
Unamortized premium/discount and issue costs	(1)		(1)	
Less: Current portion of long-term debt	-		(80)	
	710		710	
Other long-term debt				
31 plus years	5	13.5	5	13.5
	$ 715		$ 715	

The effective interest rate on long-term debt was 5.3 per cent for the year (2009 - 5.4 per cent).

Maturity dates are equivalent to interest rate repricing dates.

As at December 31, 2010 principal repayments due in each of the next five years were as follows:

	2011	2012	2013	2014	2015
			(millions)		
Principal repayments	$ -	$ 50	$ 50	$ 50	$ 50

15. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For the purpose of estimating the fair value of these obligations at year end, a settlement period ranging from 2011 to 2022 has been assumed.

The estimated future cash flows required to settle these obligations were $10 million (2009 - $10 million), which were discounted to $8 million (2009 - $8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent (2009 - 3.2 to 6.4 per cent). There was no significant change in asset retirement obligations during the year.

16. Accumulated Other Comprehensive Loss

	2010	2009
	(millions)	
Accumulated foreign currency translation adjustment on translating financial statements of self-sustaining foreign operations	$ (4)	$ (3)

17. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

18. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A. (Scotiabank), a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by SaskEnergy on the NGX Natural Gas Exchange in Alberta. NGX may draw upon the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. The Corporation has posted a $6 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw upon the letter of credit if SaskEnergy fails to make timely payment for natural gas as per the related natural gas purchase contract.

c. Commitments

At year end, the Corporation has committed to spend $156 million (2009 - $134 million) on capital projects.

18. Commitments and Contingencies (continued)

d. Contingencies

In April 2010, the Corporation was charged under Saskatchewan's Occupational Health and Safety Act and Regulations in relation to a natural gas explosion that occurred April 18, 2008 in Nipawin, Saskatchewan. On February 9, 2011, the Saskatchewan Ministry of Justice and Attorney General stayed the charges against SaskEnergy. The Corporation has also been named a defendant in a number of civil actions related to this incident. The Corporation has denied liability on all claims. The civil actions remain at an early stage, but the Corporation does not expect the outcome of these civil actions to result in any material financial impact.

e. Leases

As at December 31, 2010 future minimum lease payments under operating leases were as follows:

	2011	2012	2013	2014	2015	There-after
			(millions)			
Minimum lease payments	$ 3	$ -	$ -	$ -	$ -	$ 1

19. Revenue Collected For and Payments to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. Municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are then remitted to the respective municipalities and reported as payments to municipalities in the consolidated statement of income. Revenue collected for and payments to municipalities was $17 million (2009 - $24 million).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas, in turn, pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities in the consolidated statement of income. Revenue collected for and payments to municipalities was $2 million (2009 - $2 million).

20. Other Revenue

	2010	2009
	(millions)	
Royalty revenue	$ 3	$ 3
Natural gas and liquid sales	6	4
Share of net income of equity accounted for investments	-	3
	$ 9	$ 10

21. Interest

	2010	2009
	(millions)	
Interest expense on long-term debt	$ 42	$ 45
Interest expense on short-term debt	1	1
Debt retirement funds earnings	(4)	(3)
Change in fair value of debt retirement funds	(1)	1
Interest capitalized	(1)	(1)
	$ 37	$ 43

Interest paid during the year was $45 million (2009 - $46 million).

22. Amortization

	2010	2009
	(millions)	
Intangible assets	$ 5	$ 5
Property, plant and equipment	59	56
Customer capital contributions	(5)	(4)
	$ 59	$ 57

The estimated service lives are based on depreciation studies with annual reviews for reasonableness. During the year, a depreciation review was conducted on compression assets. As a result of this review, the estimated service lives of existing compression assets were adjusted from 3.5 per cent to a range of 2.5 to 100 per cent. The impact of this change was applied on a prospective basis commencing January 1, 2010 and resulted in an insignificant decrease in amortization expense for the year. New compression assets acquired during 2010 were amortized at a rate of 2.5 per cent, the rate that will be used for future additions.

The composite rate of amortization (excluding amortization of customer capital contributions) was 3.2 per cent (2009 - 3.4 per cent).

23. Saskatchewan Taxes

	2010	2009
	(millions)	
Corporate capital tax	$ 8	$ 7
Property taxes and other	1	1
	$ 9	$ 8

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

24. Net Income from Discontinued Operations

The Corporation, through its former subsidiary SaskEnergy Nova Scotia Holdings Ltd. (Nova Scotia Holdings), sold its 50.1 per cent interest in Heritage Gas Limited (Heritage Gas) during the fourth quarter of 2009. With the sale of Heritage Gas and the subsequent wind-up of Nova Scotia Holdings' operations in 2009, the Corporation removed the results of Nova Scotia Holdings and Heritage Gas from its ongoing financial position, operations and cash flows for the year ended December 31, 2009.

25. Net Change in Non-cash Working Capital

	2010	2009
	(millions)	
Accounts receivable	$ 15	$ 32
Natural gas in storage held for resale	(10)	(59)
Inventories of supplies	1	7
Accounts payable	(12)	(5)
	$ (6)	$ (25)

26. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control as well as non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

26. Related Party Transactions (continued)

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year and balances at year end were as follows:

	2010	2009
	(millions)	
Operating revenue	$ 50	$ 43
Operating expenses	70	77
Unamortized customer capital contributions	31	32
Accounts receivable	9	3
Accounts payable	24	24

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded in the cost of those purchases.

27. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution (the Public Employees Pension Plan) or a defined benefit pension plan (the Power Corporation Superannuation Plan). The Corporation's obligations are limited to making contributions for employees' current service. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the Power Corporation Superannuation Plan.

During the year, the Corporation contributed $5 million (2009 - $5 million) on behalf of employees for current service.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for Executive, management employees and members of the Communications, Energy & Paperworkers Union (CEP) Local 649 were as follows:

	2010	2009
	(millions)	
Accrued benefit liability	$ 14	$ 14
Benefits paid during the year	1	1
Net expense	1	2

27. Employee Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 were:

	2010	2009
Discount rate	**4.2 per cent**	5.2 per cent
Long-term rate of compensation increases	**3.0 per cent**	3.0 per cent
Average remaining employee service life	**7.3 years**	7.9 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

28. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation. The impact of rate regulation on the Corporation was as follows:

a. SaskEnergy

By virtue of legislation, SaskEnergy has the authority to sell and the exclusive authority to distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and the cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet. The amounts accumulated in the GCVA are not reflected in these financial statements. The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Office of the Provincial Auditor of Saskatchewan.

28. Rate Regulation (continued)

In accordance with the foregoing rate-setting process, revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2i. SaskEnergy's delivery revenue was $181 million (2009 - $181 million) and commodity revenue was $273 million (2009 - $411 million). The related cost of gas sold is accounted for in accordance with the policy described in note 2j.

b. TransGas

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2i. TransGas transportation revenue was $61 million (2009 - $64 million).

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board. Revenue recognition policies for MIPL transportation revenue are as described in note 2i. MIPL transportation revenue was $1 million (2009 - $1 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. Revenue recognition policies for SVGC are as described in note 2i. SVGC's delivery revenue was $1 million (2009 - $1 million) and commodity revenue was $1 million (2009 - $1 million).

29. Joint Venture

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility, each an unincorporated joint venture:

a. Consolidated statement of financial position

	2010	2009
	(millions)	
Current assets	$ 1	$ -
Property, plant and equipment	27	16
Current liabilities	(2)	(3)
Investment in joint venture	$ 26	$ 13

29. Joint Venture (continued)

b. Consolidated statement of income

	2010	2009
	(millions)	
Revenue	$ 3	$ 1
Expenses	(3)	(1)
Income from joint venture	$ -	$ -

c. Consolidated statement of cash flows

	2010	2009
	(millions)	
Cash (used in) provided by operating activities	$ (2)	$ 3
Cash used in investing activities	(11)	(10)
Decrease in cash	$ (13)	$ (7)

30. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2010

Independent Auditor's Report

To the Shareholder of TransGas Limited

We have audited the accompanying financial statements of TransGas Limited, which comprise the statement of financial position as at December 31, 2010, and the statements of income and retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respect, the financial position of TransGas Limited as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 24, 2011

TRANSGAS LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	Notes	2010	2009
Assets			
Current assets			
Cash		$ -	$ 22,360
Accounts receivable	4	13,014	9,334
Intercompany accounts receivable		4,148	5,019
Natural gas in storage held for resale	5	18,238	12,152
Inventories of supplies	6	1,951	1,887
Debt retirement funds	7	-	9,402
Fair value of derivative instruments	8	3,117	1,137
		40,468	61,291
Intangible assets	9	3,057	4,056
Property, plant and equipment	10	542,083	515,726
Natural gas in storage held for resale and operations		33,181	33,181
Debt retirement funds	7	28,822	23,780
		$ 647,611	$ 638,034
Liabilities and Shareholder's Equity			
Current liabilities			
Bank indebtedness		$ 80,226	$ -
Accounts payable	11	38,692	28,657
Intercompany accounts payable		9,068	15,736
Dividends payable		8,173	-
Current portion of long-term debt	12	-	80,000
Fair value of derivative instruments	8	83	2,712
		136,242	127,105
Long-term debt	12	305,726	305,469
Asset retirement obligations	13	5,492	5,309
		447,460	437,883
Shareholder's equity			
Retained earnings		196,150	196,150
Share capital	14	4,001	4,001
		200,151	200,151
		$ 647,611	$ 638,034
Commitments	15		

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED

Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Revenue			
Transportation and storage		$ 125,810	$ 130,355
Gas marketing sales		25,655	41,160
Revenue collected for municipalities	16	1,873	1,723
Other	17	4,275	4,047
		157,613	177,285
Expenses			
Gas marketing cost of gas sold		22,769	41,426
Operating and maintenance		70,416	63,134
Payments to municipalities	16	1,873	1,723
Interest	18	17,623	21,463
Amortization	19	26,649	26,875
Saskatchewan taxes	20	3,063	2,643
		142,393	157,264
Net income		15,220	20,021
Retained earnings, beginning of year		196,150	190,439
Dividends		(15,220)	(14,310)
Retained earnings, end of year		$ 196,150	$ 196,150

(See accompanying notes)

TRANSGAS LIMITED
Statement of Comprehensive Income
Years ended December 31
(thousands of dollars)

	2010	2009
Net income	$ 15,220	$ 20,021
Other comprehensive loss		
Loss on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	-	(373)
Comprehensive income	$ 15,220	$ 19,648

TRANSGAS LIMITED
Statement of Accumulated Other Comprehensive Income
Years ended December 31
(thousands of dollars)

	2010	2009
Accumulated other comprehensive income, beginning of year	$ -	$ 373
Other comprehensive loss	-	(373)
Accumulated other comprehensive income, end of year	$ -	$ -

(See accompanying notes)

TRANSGAS LIMITED
Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Operating Activities			
Net income		$ 15,220	$ 20,021
Add (deduct) items not requiring an outlay of cash			
Amortization		26,649	26,875
Write-down of natural gas in storage held for resale		3,502	424
Change in fair value of derivative instruments		(4,609)	5,525
Debt retirement funds earnings		(2,309)	(1,660)
Change in fair value of debt retirement funds		329	(485)
Asset retirement obligations		183	198
Other		101	585
		39,066	51,483
Net change in non-cash working capital related to operations	21	(14,387)	(18,205)
Cash provided by operating activities		24,679	33,278
Investing Activities			
Additions to property, plant and equipment		(67,875)	(55,689)
Additions to intangible assets		(854)	(185)
Capital contributions and deposits received		21,256	16,308
Cash used in investing activities		(47,473)	(39,566)
Financing Activities			
Increase in bank indebtedness		80,226	-
Proceeds on issue of notes payable to parent		-	33,000
Repayment of notes payable to parent		(80,000)	(22,422)
Debt retirement funds installments		(3,011)	(3,481)
Debt retirement funds redemption		10,009	-
Increase in financing costs		257	-
Dividends paid		(7,047)	(17,994)
Cash provided by (used in) financing activities		434	(10,897)
Decrease in cash during the year		(22,360)	(17,185)
Cash position, beginning of year		22,360	39,545
Cash position, end of year		$ -	$ 22,360

(See accompanying notes)

1. Status of the Corporation

TransGas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates a natural gas transmission pipeline system within Saskatchewan providing open access transmission services as well as gathering, compression and natural gas processing to end-use customers, marketers and producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The impact of rate regulation on the application of GAAP is described in note 24. The following accounting policies are considered to be significant:

a. Use of estimates

In the application of the Corporation's accounting policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. Significant areas requiring the use of estimates and assumptions include revenue recognition related to unbilled revenue, net realizable value of natural gas in storage held for resale, fair value of financial and derivative instruments, service lives and amortization rates of property, plant and equipment and intangible assets, employee future benefits and underlying actuarial assumptions and future costs of decommissioning liabilities. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

b. Natural gas in storage

Natural gas in storage is valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices based on anticipated delivery dates.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are valued at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value.

d. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

2. Summary of Significant Accounting Policies (continued)

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired, at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount of the financial instrument.

Derivative instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 8c.

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy, based on the amount of observable inputs:

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. The Corporation uses Level 2 inputs for all its recurring fair value measurements, including debt retirement funds and derivative instruments.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair values also reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

2. Summary of Significant Accounting Policies (continued)

e. Intangible assets

Intangible assets are computer software and are stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are 8.3 to 20.0 per cent.

f. Property, plant and equipment

Property, plant and equipment is stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing construction of the assets. The costs of renewals and betterments that extend the service life of an asset are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by removing the cost of the asset and the related accumulated amortization. The difference between the proceeds upon disposal and the carrying amount of the asset is included in net income.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The initial amortization rates (per cent) are as follows:

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5
Vehicles, equipment and other	4.0 to 33.3

Customer capital contributions are paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established policies. These contributions from customers are netted against property, plant and equipment and are amortized on a straight-line basis over the estimated service life of the related asset. Customer contributions received in excess of construction costs to date are reclassified as unearned customer contributions and are reported in accounts payable as customer deposits.

g. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated service life of the related asset.

h. Revenue recognition

i. Transportation and storage

Revenue is recognized when transportation, storage and related services are provided to customers. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

2. Summary of Significant Accounting Policies (continued)

ii. Gas marketing

Revenue is recognized when natural gas is delivered to customers. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale and assuming the risks and rewards of ownership.

iii. Other

Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to customers. Processing fees are recognized as services are performed.

i. Cost of gas sold

Cost of gas sold includes the cost of purchasing natural gas in the open market, financial and derivative instrument settlements, fair value adjustments on financial and derivative instruments, transportation and direct operating costs related to supply acquisition. Cost of gas sold also includes the revaluation and subsequent reversal of natural gas in storage held for resale, if any.

j. Employee future benefits

i. Pension plans

Eligible employees of the Corporation are members of either a defined contribution pension plan or a defined benefit pension plan. Under both multi-employer plans, the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are recognized in net income.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Any actuarial gains or losses are recognized in net income.

k. Future accounting policy changes

The Canadian Institute of Chartered Accountants has confirmed that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS is a principle-based set of standards similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first financial statements prepared in accordance with IFRS for the year ending December 31, 2011, along with comparative figures.

3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to customers.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy, which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

The Corporation monitors capital on the basis of the debt ratio. The long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline utilities. The purpose of this strategy is to ensure that the Corporation's debt is self supporting. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2010	2009
	(thousands)	
Long-term debt	$ 305,726	$ 385,469
Bank indebtedness	80,226	-
Debt retirement funds	(28,822)	(33,182)
Cash	-	(22,360)
Total net debt	357,130	329,927
Equity advances	4,001	4,001
Retained earnings	196,150	196,150
Total capital	$ 557,281	$ 530,078
	64.1%	62.2%

The Corporation complied with all externally imposed requirements on its capital for the year.

4. Accounts Receivable

	2010	2009
	(thousands)	
Unbilled revenue	$ 6,871	$ 6,482
Trade accounts	5,302	1,524
Other receivables	841	1,328
	$ 13,014	$ 9,334

5. Natural Gas in Storage

The cost of natural gas in storage held for resale that was recognized as cost of gas sold during the year was $25,099 thousand (2009 - $42,490 thousand).

With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. A $3,502 thousand revaluation of natural gas in storage to net realizable value was recorded during the year (2009 - $424 thousand). The revaluation of natural gas in storage is included in cost of gas sold. If natural gas prices rise in the future, there will be a reversal of the revaluation. There was no reversal of any prior year revaluation during the period.

6. Inventories of Supplies

During the year, $17,461 thousand of inventories of supplies (2009 - $12,192 thousand) were recognized as operating and maintenance expense. There was no revaluation of inventories of supplies and no reversal of any prior revaluation during the year.

7. Debt Retirement Funds

Under conditions attached to certain advances from SaskEnergy, the Corporation is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 6.4 per cent for the year (2009 - 5.4 per cent).

7. Debt Retirement Funds (continued)

The change in the carrying amount of debt retirement funds during the year was as follows:

	2010	2009
	(thousands)	
Debt retirement funds, beginning of year	$ 33,182	$ 28,526
Installments	3,011	3,481
Redemptions	(10,009)	-
Earnings	2,309	1,660
Change in fair value	329	(485)
Debt retirement funds, end of year	$ 28,822	$ 33,182

As at December 31, 2010 amounts required to be invested in the debt retirement fund in each of the next five years were as follows:

	2011	2012	2013	2014	2015
			(thousands)		
Installments	$ 3,011	$ 3,011	$ 3,011	$ 3,011	$ 2,761

8. Financial Instruments and Risk Management

a. Financial instruments

	Classification	2010 Carrying Amount	2010 Fair Value	2009 Carrying Amount	2009 Fair Value
		(thousands)			
Financial assets					
Cash	HFT	$ -	$ -	$22,360	$22,360
Accounts receivable	LAR	13,014	13,014	9,334	9,334
Intercompany accounts receivable	LAR	4,148	4,148	5,019	5,019
Debt retirement funds	HFT	28,822	28,822	33,182	33,182
Financial liabilities					
Bank indebtedness	HFT	80,226	80,226	-	-
Accounts payable	OL	38,692	38,692	28,657	28,657
Intercompany accounts payable	OL	9,068	9,068	15,736	15,736
Dividends payable	OL	8,173	8,173	-	-
Long-term debt	OL	305,726	370,601	385,469	439,263

Classification details:
HFT - held-for-trading
HTM - held-to-maturity
LAR - loans and receivables
AFS - available-for-sale
OL - other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Other financial instruments - The fair value of other financial instruments, including cash, accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, intercompany accounts payable and dividends payable, approximate their carrying amounts due to the short-term nature of these instruments.

8. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

Notional values are an approximation of future undiscounted net cash flows based on contract price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

As at December 31, 2010 natural gas derivative instruments had the following fair values, notional values and maturities:

	2011	2012	2013	2014	2015	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ 3,034	$ -	$ -	$ -	$ -	$ 3,034
Notional value	21,106	-	-	-	-	21,106
Total						
Fair value	$ 3,034	$ -	$ -	$ -	$ -	$ 3,034
Notional value	$ 21,106	$ -	$ -	$ -	$ -	$ 21,106

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

The fair value of the Corporation's derivative instruments is presented on the statement of financial position as follows:

	2010	2009
	(thousands)	
Fair value of derivative instrument assets	$ 3,117	$ 1,137
Fair value of derivative instrument liabilities	(83)	(2,712)
	$ 3,034	$ (1,575)

8. Financial Instruments and Risk Management (continued)

c. Fair value of financial and derivative instruments

As at December 31, 2010 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

	Level 1	Level 2	Level 3	Total
		(thousands)		
Debt retirement funds	$ -	$28,822	$ -	$28,822
Fair value of derivative instrument assets	-	3,117	-	3,117
Fair value of derivative instrument liabilities	-	(83)	-	(83)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. The increase (decrease) in net income of these unrealized gains and losses was as follows:

	2010	2009
	(thousands)	
Derivative instruments		
Gas marketing sales	$ 2,280	$ (7,383)
Gas marketing cost of gas sold	2,329	2,230
	4,609	(5,153)
Financial instruments		
Gas marketing cost of gas sold	-	(1,166)
Interest expense	(329)	485
	$ 4,280	$ (5,834)

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk, interest rate risk and foreign currency risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior year.

8. Financial Instruments and Risk Management (continued)

i. Natural gas price risk

The Corporation manages the risk associated with the purchase and sale price of natural gas by entering into fixed or indexed price purchase or sale contracts.

Based on the Corporation's year-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $4,770 thousand (2009 - $1,844 thousand). Conversely, a decrease of $1.00 per Gigajoule would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $4,770 thousand (2009 - $1,844 thousand).

ii. Interest rate risk

The Corporation is subject to interest rate risk when issuing debt or refinancing maturities. In addition to $80,226 thousand of bank indebtedness, the Corporation had $305,726 thousand of long-term debt outstanding at year end. Only the bank indebtedness will be refinanced in 2011. Based on these amounts, a one per cent change in interest rates on the Corporation's bank indebtedness would increase the annual interest expense by approximately $802 thousand (2009 - $800 thousand).

iii. Foreign currency risk

The Corporation faces exposure to foreign currency risk primarily through the purchase of goods and services. For the purpose of managing the foreign currency risk on significant expenditures denominated in foreign currency, the Corporation may use currency forwards and currency options. During the year, the impact of these instruments on net income was $nil (2009 - $nil).

8. Financial Instruments and Risk Management (continued)

iv. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2010:

		Contractual Maturities				
	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
		(thousands)				
Bank indebtedness	$ 80,226	$ 80,226	$ -	$ -	$ -	$ 80,226
Accounts payable	38,692	38,692	-	-	-	38,692
Intercompany accounts payable	9,068	9,068	-	-	-	9,068
Dividends payable	8,173	8,173	-	-	-	8,173
Long-term debt	305,726	16,983	16,983	98,980	352,385	485,331
	$441,885	$153,142	$16,983	$98,980	$352,385	$621,490

At year end, the Corporation had sufficient borrowing capacity to fund these contractual obligations.

v. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meets its contractual obligations. The Corporation is exposed to credit risk through cash, accounts receivable, intercompany accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single, non-related party was $1,275 thousand (2009 - $765 thousand) and to a single, related party was $7,022 thousand (2009 - $1,258 thousand). Excluding related parties, the Corporation had 135 customers (2009 - 132).

8. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2010	2009
	(thousands)	
Cash	$ -	$ 22,360
Accounts receivable	13,014	9,334
Intercompany accounts receivable	4,148	5,019
Debt retirement funds	28,822	33,182
Fair value of derivative instrument assets	3,117	1,137
	$ 49,101	$ 71,032

The following reflects an aging summary of the Corporation's accounts receivable:

	2010	2009
	(thousands)	
Current	$ 12,826	$ 9,309
30 - 59 days	185	25
60 - 89 days	-	-
Greater than 90 days	3	-
	$ 13,014	$ 9,334

The Corporation has a provision for credit losses in the amount of $3 thousand (2009 - $3 thousand).

9. Intangible Assets

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
			(thousands)			
Computer software	$ 24,985	$ 21,928	$ 3,057	$ 24,222	$ 20,166	$ 4,056
	$ 24,985	$ 21,928	$ 3,057	$ 24,222	$ 20,166	$ 4,056

During the year, the Corporation acquired $376 thousand (2009 - $77 thousand) and developed $478 thousand (2009 - $108 thousand) of intangible assets.

10. Property, Plant and Equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	(thousands)					
Transmission and storage	$ 753,856	$ 266,414	$487,442	$714,647	$ 247,259	$467,388
Gathering, treatment and compression	182,290	85,205	97,085	173,711	80,112	93,599
Vehicles, equipment and other	39,309	24,815	14,494	38,303	23,040	15,263
Construction in progress	55,930	-	55,930	39,311	-	39,311
	$1,031,385	$ 376,434	654,951	$965,972	$ 350,411	615,561
Less: Unamortized customer capital contributions			112,868			99,835
			$542,083			$515,726

The change in customer capital contributions during the year was as follows:

	2010	2009
	(thousands)	
Unamortized customer capital contributions, beginning of year	$ 99,835	$ 99,848
Net contributions received	15,964	2,021
Amortization of contributions	(2,931)	(2,034)
Unamortized customer capital contributions, end of year	$ 112,868	$ 99,835

11. Accounts Payable

	2010	2009
	(thousands)	
Supplier payables	$ 11,373	$ 6,418
Customer deposits	20,521	15,547
Other payables	6,798	6,692
	$ 38,692	$ 28,657

12. Long-Term Debt

	2010		2009	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5 years	$ 50,000	4.8	$ 105,000	7.0
6 - 10 years	151,112	4.5	176,112	4.7
11 - 15 years	75,000	8.8	-	
16 - 20 years	-		75,000	8.8
26 - 30 years	25,000	5.0	25,000	5.0
	301,112		381,112	
Unamortized premium/discount and issue costs	(201)		(458)	
Less: Current portion of long-term debt	-		(80,000)	
	300,911		300,654	
Other long-term debt				
31 plus years	4,815	13.5	4,815	13.5
	$ 305,726		$ 305,469	

The effective interest rate on long-term debt was 5.6 per cent for the year (2009 - 5.7 per cent).

Maturity dates are equivalent to interest rate repricing dates.

As at December 31, 2010 principal repayments due in each of the next five years were as follows:

	2011	2012	2013	2014	2015
			(thousands)		
Principal repayments	$ -	$ -	$ -	$25,000	$25,000

13. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For the purpose of estimating the fair value of these obligations at year end a settlement period ranging from 2011 to 2016 has been assumed.

13. Asset Retirement Obligations (continued)

The estimated future cash flows required to settle these obligations were $6,140 thousand (2009 - $6,140 thousand), which were discounted to $5,492 thousand (2009 - $5,309 thousand) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent (2009 - 3.2 to 6.4 per cent). The change in asset retirement obligations during the year was as follows:

	2010	2009
	(thousands)	
Asset retirement obligations, beginning of year	$ 5,309	$ 5,111
Accretion expense	183	198
Asset retirement obligations, end of year	$ 5,492	$ 5,309

14. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. At year end, 30 shares are issued and outstanding (2009 - 30).

15. Commitments

a. Commitments

At year end, the Corporation has committed to spend $78,726 thousand in 2011 (2010 - $71,682 thousand) on capital projects.

b. Leases

As at December 31, 2010 future minimum lease payments under operating leases were as follows:

	2011	2012	2013	2014	2015	There-after
			(thousands)			
Minimum lease payments	$ 111	$ -	$ -	$ -	$ -	$ -

16. Revenue Collected For and Payments to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation, in turn, pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities in the statement of income. Revenue collected for and payments to municipalities was $1,873 thousand (2009 - $1,723 thousand).

17. Other Revenue

	2010	2009
	(thousands)	
Natural gas and liquid sales	$ 3,519	$ 3,295
Processing fees	569	524
Other	187	228
	$ 4,275	$ 4,047

18. Interest

	2010	2009
	(thousands)	
Interest expense on notes payable to parent	$ 20,754	$ 22,274
Interest expense on other long-term debt	650	650
Debt retirement funds earnings	(2,309)	(1,660)
Change in fair value of debt retirement funds	(329)	485
Interest capitalized	(1,117)	(208)
Interest income	(26)	(78)
	$ 17,623	$ 21,463

Interest paid during the year was $19,364 thousand (2009 - $21,977 thousand).

19. Amortization

	2010	2009
	(thousands)	
Intangible assets	$ 1,829	$ 1,870
Property, plant and equipment	27,751	27,039
Customer capital contributions	(2,931)	(2,034)
	$ 26,649	$ 26,875

The estimated service lives of assets are reviewed for reasonableness. During the year, a depreciation review was conducted on compression assets. As a result of this review, the amortization rate associated with the assets' estimated service lives was adjusted from 3.5 per cent to an average of 2.9 per cent. The impact of this change was applied on a prospective basis commencing January 1, 2010 and resulted in a decrease of $399 thousand amortization expense for the year. New compression assets acquired during 2010 were amortized at a rate of 2.5 per cent, the rate which will be used for future additions.

20. Saskatchewan Taxes

	2010	2009
	(thousands)	
Corporate capital tax	$ 2,462	$ 2,077
Property taxes and other	601	566
	$ 3,063	$ 2,643

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

21. Net Change in Non-Cash Working Capital

	2010	2009
	(thousands)	
Accounts receivable	$ (3,680)	$ (116)
Intercompany accounts receivable	871	688
Natural gas in storage held for resale	(9,588)	334
Inventories of supplies	(64)	(38)
Accounts payable	4,742	(7,708)
Intercompany accounts payable	(6,668)	(11,365)
	$ (14,387)	$ (18,205)

22. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions and balances with SaskEnergy and its subsidiaries as follows.

	2010	2009
	(thousands)	
Transportation and storage revenue	$ 49,393	$ 52,190
Gas marketing sales	23,375	48,544
Gas marketing cost of gas sold	21,597	49,503
Operating and maintenance	17,384	14,695
Interest	18,077	21,010
Natural gas in storage held for resale	18,238	12,152
Fair value of derivative instrument assets	3,117	1,137
Fair value of derivative instrument liabilities	83	2,712
Unamortized customer contributions	12,425	13,766

Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

22. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control as well as non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties). These transactions during the year and balances at year end were as follows:

	2010	2009
	(thousands)	
Transportation and storage revenue	$ 15,559	$ 14,342
Operating and maintenance	6,394	6,889
Unamortized customer capital contributions	41,080	41,375
Accounts receivable	4,526	1,288
Accounts payable	151	168

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded in the cost of those purchases.

23. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution (the Public Employees Pension Plan) or a defined benefit pension plan (the Power Corporation Superannuation Plan). The Corporation's obligations are limited to making contributions for employees' current service. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the Power Corporation Superannuation Plan.

During the year, the Corporation contributed $1,098 thousand (2009 - $1,115 thousand) on behalf of employees for current service.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for Executive, management employees and members of the Communications, Energy & Paperworkers Union (CEP) Local 649 were as follows:

	2010	2009
	(thousands)	
Accrued benefit liability	$ 3,232	$ 3,398
Benefits paid during the year	412	336
Net expense	325	408

23. Employee Future Benefits (continued)

The Corporation measures its accrued benefit liability as at December 31 of each year with an actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 were:

	2010	2009
Discount rate	**4.2 per cent**	5.2 per cent
Long-term rate of compensation increases	**3.0 per cent**	3.0 per cent
Average remaining employee service life	**6.9 years**	7.4 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

24. Rate Regulation

By virtue of legislation, the Corporation has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the Saskatchewan Rate Review Panel.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2h. The Corporation's transportation revenue was $95,337 thousand (2009 - $100,840 thousand). Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation.

25. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

BAYHURST GAS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

Independent Auditor's Report

To the Shareholder of Bayhurst Gas Limited

We have audited the accompanying consolidated financial statements of Bayhurst Gas Limited and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respect, the financial position of Bayhurst Gas Limited and its subsidiaries as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 24, 2011

BAYHURST GAS LIMITED
Consolidated Statement of Financial Position
As at December 31
(thousands of dollars)

	Notes	2010	2009
Assets			
Current assets			
Accounts receivable	4	$ 3,114	$ 7,499
Intercompany accounts receivable		7,819	4,298
Natural gas in storage held for resale	5	175,265	196,597
Fair value of derivative instruments	6	64,070	31,949
		250,268	240,343
Natural gas in storage held for resale	5	-	727
Property, plant and equipment	7	33,961	23,679
Debt retirement funds	8	2,076	917
		$ 286,305	$ 265,666
Liabilities and Shareholder's Equity			
Current liabilities			
Bank indebtedness		$ 118,173	$ 102,926
Accounts payable	9	1,800	5,861
Intercompany accounts payable		1,008	3,410
Short term-loan payable to parent (Note 4)			
Deferred revenue	10	677	-
Fair value of derivative instruments	6	56	408
		121,714	112,605
Asset retirement obligations	11	2,569	2,451
Notes payable to parent	12	106,514	107,308
		230,797	222,364
Shareholder's equity			
Retained earnings		54,447	42,210
Accumulated other comprehensive income		-	31
		54,447	42,241
Share capital	13	1,061	1,061
		55,508	43,302
		$ 286,305	$ 265,666

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED
Consolidated Statement of Income and Retained Earnings
Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Revenue			
Gas marketing sales		**$ 108,613**	$ 60,232
Royalties		**2,277**	2,615
Other	14	**2,780**	1,403
		113,670	64,250
Expenses			
Gas marketing cost of gas sold		**78,887**	22,510
Operating and maintenance		**7,981**	7,597
Interest	15	**3,733**	2,598
Amortization	16	**1,417**	714
Saskatchewan taxes	17	**1,531**	1,624
		93,549	35,043
Net income		**20,121**	29,207
Retained earnings, beginning of year		**42,210**	19,463
Dividends		**(7,884)**	(6,460)
Retained earnings, end of year		**$ 54,447**	$ 42,210

(See accompanying notes)

BAYHURST GAS LIMITED

Consolidated Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2010	2009
Net income	$ 20,121	$ 29,207
Other comprehensive income		
Gains (losses) on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	(31)	127
Comprehensive income	$ 20,090	$ 29,334

BAYHURST GAS LIMITED

Consolidated Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

	2010	2009
Accumulated other comprehensive income (loss), beginning of year	$ 31	$ (96)
Other comprehensive (loss) income	(31)	127
Accumulated other comprehensive income, end of year	$ -	$ 31

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Operating Activities			
Net income		$ 20,121	$ 29,207
Add (deduct) items not requiring an outlay of cash			
Amortization		1,535	1,006
Write down of natural gas in storage held for resale		27,116	-
Change in fair value of derivative instruments		(32,504)	(23,093)
Debt retirement funds earnings		(84)	(14)
Change in fair value of debt retirement funds		(25)	1
		16,159	7,107
Net change in non-cash working capital related to operations	18	(10,706)	(118,359)
Decrease in natural gas in storage - non-current		727	752
Cash provided by (used in) operating activities		6,180	(110,500)
Investing Activities			
Additions to property, plant and equipment		(11,699)	(12,018)
Cash used in investing activities		(11,699)	(12,018)
Financing Activities			
Increase in bank indebtedness		15,247	60,460
Dividends paid		(7,884)	(14,544)
(Decrease) increase in notes payable to parent		(794)	77,402
Debt retirement funds installments		(1,050)	(800)
Cash provided by financing activities		5,519	122,518
Change in cash during the year		-	-
Cash position, beginning of year		-	-
Cash position, end of year		$ -	$ -

(See accompanying notes)

BAYHURST GAS LIMITED
Notes to the Consolidated Financial Statements
December 31, 2010

1. Status of the Corporation

Bayhurst Gas Limited (the Corporation) was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada. The Corporation owns and operates natural gas and liquid related businesses within Saskatchewan.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Bayhurst Gas Limited and its wholly owned subsidiaries: Bayhurst Energy Services Corporation and BG Storage Inc. (as of December 2010). The accounts also include the Corporation's 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility, each an unincorporated joint venture.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies are considered to be significant:

a. Use of estimates

In the application of the Corporation's accounting policies, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. Significant areas requiring the use of estimates and assumptions include revenue recognition related to unbilled revenue, net realizable value of natural gas in storage held for resale, fair value of financial and derivative instruments, service lives and amortization rates of property, plant and equipment and future costs of decommissioning liabilities. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

b. Natural gas in storage

Natural gas in storage is valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices based on anticipated delivery dates.

c. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

2. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired, at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount of the financial instrument.

The Corporation utilizes a variety of derivative instruments to manage its exposure to natural gas price risk. Derivatives are initially recognized at fair value at the date the derivative contract is entered.

Derivative instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 7c.

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy, based on the amount of observable inputs:

i. Level 1 - Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 - Pricing inputs are other than quoted prices in active markets included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. The Corporation uses Level 2 inputs for all its recurring fair value measurements, including debt retirement funds and derivative instruments.

iii. Level 3 - Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair values also reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

2. Summary of Significant Accounting Policies (continued)

d. Property, plant and equipment

Property, plant and equipment is stated at cost that includes all direct costs related to the development of the assets and interest costs related to financing construction of the assets. The costs of renewals and betterments that extend the service life of an asset are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by removing the cost of the asset and the related accumulated amortization. The difference between the proceeds and the carrying amount of the asset is included in net income.

Natural gas reserve is depleted using the unit-of-production method. Other property, plant and equipment is amortized on a straight-line basis over the estimated service life of the asset. The amortization rates (per cent) are as follows:

Transmission and storage	5.6 to 9.0
Gathering, treatment and compression	2.5 to 12.2

Customer capital contributions are paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established policies. These contributions from customers are netted against property, plant and equipment and are amortized on a straight-line basis over the estimated service life of the related asset.

e. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated service life of the related asset.

f. Revenue recognition

i. Gas marketing

Revenue is recognized when natural gas is delivered to customers. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale and assuming the risks and rewards of ownership.

ii. Royalties

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to customers.

iii. Other

Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to customers. Processing fees and transportation revenue are recognized when related services are provided to customers.

2. Summary of Significant Accounting Policies (continued)

g. Cost of gas sold

Cost of gas sold includes the cost of purchasing natural gas in the open market, financial and derivative instrument settlements, fair value adjustments on financial and derivative instruments, transportation and direct operating costs related to supply acquisition. Cost of gas sold also includes the revaluation and subsequent reversal of natural gas in storage held for resale, if any.

h. Employee future benefits

i. Pension plans

Eligible employees of the Corporation are members of a defined contribution pension plan. Under this multi-employer plan, the Corporation's obligations are limited to making regular payments to the plan for current services. When made, these contributions are recognized in net income.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Any actuarial gains or losses are recognized in net income.

i. Future accounting policy changes

The Canadian Institute of Chartered Accountants has confirmed that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRS for the year ending December 31, 2011, along with comparative figures.

3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to efficiently funding the Corporation's gas marketing business.

The Corporation finances its capital requirements through internally generated funds and debt. The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $200 million on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy, which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice. In addition, the Corporation may borrow long-term debt from its parent, through the Subsidiary Debt Agreement, upon approval by its Board of Directors.

3. Capital Disclosure (continued)

The Corporation's capital consists of bank indebtedness, notes payable to parent having a term to maturity greater than one year and shareholder's equity. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2010	2009
	(thousands)	
Notes payable to parent	$ 106,514	$ 107,308
Bank indebtedness	118,173	102,926
Debt retirement funds	(2,076)	(917)
Total net debt	222,611	209,317
Equity advances	1,061	1,061
Retained earnings	54,447	42,210
Total capital	$ 278,119	$ 252,588
	80.0%	82.9%

The Corporation complied with all externally imposed requirements on its capital for the year.

4. Accounts Receivable

	2010	2009
	(thousands)	
Unbilled revenue	$ 981	$ 1,009
Other receivables	2,133	6,490
	$ 3,114	$ 7,499

5. Natural Gas in Storage

The cost of natural gas in storage recognized as cost of gas sold during the year was $77,873 thousand (2009 - $22,164 thousand).

With the decline in natural gas market prices, the net realizable value of gas marketing natural gas in storage has fallen below cost. A $27,116 thousand revaluation of natural gas in storage to net realizable value was recorded during the year (2009 - $nil). The revaluation of natural gas in storage is included in cost of gas sold. If natural gas prices rise in the future, there will be a reversal of the revaluation. There was no reversal of any prior year revaluation during the year.

6. Financial Instruments and Risk Management

a. Financial instruments

	Classification	2010 Carrying Amount	2010 Fair Value	2009 Carrying Amount	2009 Fair Value
		(thousands)			
Financial assets					
Accounts receivable	LAR	**$ 3,114**	**$ 3,114**	$ 7,499	$ 7,499
Intercompany accounts receivable	LAR	**7,819**	**7,819**	4,298	4,298
Debt retirement funds	HFT	**2,076**	**2,076**	917	917
Financial liabilities					
Bank indebtedness	HFT	**118,173**	**118,173**	102,926	102,926
Accounts payable	OL	**1,800**	**1,800**	5,861	5,861
Intercompany accounts payable	OL	**1,008**	**1,008**	3,410	3,410
Notes payable to parent	OL	**106,514**	**109,608**	107,308	108,496

Classification details:
HFT - held-for-trading
LAR - loans and receivables
OL - other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Other financial instruments - The fair value of other financial instruments, including accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable approximate their carrying amounts due to the short-term nature of these instruments.

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

6. Financial Instruments and Risk Management (continued)

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

As at December 31, 2010 natural gas derivative instruments had the following fair values, notional values and maturities:

	2011	2012	2013	2014	2015	Total
			(thousands)			
Physical natural gas contracts						
Fair value	$ 29,389	$ 19,207	$ 11,829	$ 3,275	$ 314	$ 64,014
Notional value	77,680	61,688	44,126	27,958	5,871	217,323

Fair value - increase
Notional value - estimated net cash inflow

The fair value of the Corporation's derivative instruments is presented on the consolidated statement of financial position as follows:

	2010	2009
	(thousands)	
Fair value of derivative instrument assets	**$ 64,070**	$ 31,949
Fair value of derivative instrument liabilities	**(56)**	(408)
	$ 64,014	$ 31,541

c. Fair value of financial and derivative instruments

As at December 31, 2010 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

	Level 1	Level 2	Level 3	Total
		(thousands)		
Debt retirement funds	$ -	$ 2,076	$ -	$ 2,076
Fair value of derivative instrument assets	-	64,070	-	64,070
Fair value of derivative instrument liabilities	-	(56)	-	(56)

6. Financial Instruments and Risk Management (continued)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. The increase (decrease) in net income of these unrealized gains and losses was as follows:

	2010	2009
	(thousands)	
Derivative instruments		
Gas marketing sales	$ 32,466	$ 23,093
Financial instruments		
Interest expense	25	(1)
	$ 32,491	$ 23,092

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk and interest rate risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk and interest rate risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount.

Based on the Corporation's year-end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $33,921 thousand (2009 - $30,062 thousand). Conversely, a decrease of $1.00 per Gigajoule would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $33,921 thousand (2009 - $30,062 thousand).

ii. Interest rate risk

The Corporation's significant interest-bearing financial instruments are bank indebtedness and notes payable to parent, which is a fixed rate instrument. At year end, the Corporation had $118,173 thousand of bank indebtedness and there were no notes payable to parent maturing in 2011 (2009 - $nil). Based on these amounts, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $1,182 thousand (2009 - $1,029 thousand).

6. Financial Instruments and Risk Management (continued)

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The following summarizes the contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2010:

		Contractual Maturities				
	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
		(thousands)				
Bank indebtedness	$118,173	$118,173	$ -	$ -	$ -	$118,173
Accounts payable	1,800	1,800	-	-	-	1,800
Intercompany accounts payable	1,008	1,008	-	-	-	1,008
Notes payable to parent	106,514	3,965	28,964	55,346	31,812	120,087
	$227,495	$124,946	$ 28,964	$ 55,346	$ 31,812	$241,068

At year end, the Corporation had sufficient borrowing capacity to fund these contractual obligations.

iv. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meets its contractual obligations. The Corporation is exposed to credit risk through accounts receivable, intercompany accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a non-related counterparty was $1,407 thousand (2009 - $3,092 thousand) and to a related party was $71,794 thousand (2009 - $30,004 thousand).

6. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2010	2009
	(thousands)	
Accounts receivable	$ 3,114	$ 7,499
Intercompany accounts receivable	7,819	4,298
Fair value of derivative instrument assets	64,070	31,949
Debt retirement funds	2,076	917
	$ 77,079	$ 44,663

The following reflects an aging summary of the Corporation's accounts receivable:

	2010	2009
	(thousands)	
Current	$ 3,114	$ 7,497
Greater than 90 days	-	2
	$ 3,114	$ 7,499

The Corporation does not have a provision for credit losses (2009 - $nil).

7. Property, Plant and Equipment

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
			(thousands)			
Gathering, treatment and compression	$ 29,468	$ 4,537	$ 24,931	$ 11,779	$ 3,542	$ 8,237
Storage	7,563	3,652	3,911	6,749	3,309	3,440
Transmission	2,669	2,005	664	2,669	1,923	746
Natural gas reserve	1,935	-	1,935	-	-	-
Construction in progress	2,556	-	2,556	11,295	-	11,295
	$ 44,191	$ 10,194	33,997	$ 32,492	$ 8,774	23,718
Less: Unamortized customer capital contributions			36			39
			$ 33,961			$ 23,679

7. Property, Plant and Equipment (continued)

The change in customer capital contributions during the year was as follows:

	2010	2009
	(thousands)	
Unamortized customer capital contributions, beginning of year	$ 39	$ 41
Amortization of contributions	(3)	(2)
Unamortized customer capital contributions, end of year	$ 36	$ 39

8. Debt Retirement Funds

The Corporation has received notes payable from SaskEnergy. The terms and conditions of this debt require, on an annual basis, the investment of an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds. Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt. The yield on these investments was 6.4 per cent for the year (2009 - 5.4 per cent).

The change in the carrying amount of debt retirement funds during the year was as follows:

	2010	2009
	(thousands)	
Debt retirement funds, beginning of year	$ 917	$ 104
Installments	1,050	800
Earnings	84	14
Change in fair value	25	(1)
Debt retirement funds, end of year	$ 2,076	$ 917

As at December 31, 2010 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

	2011	2012	2013	2014	2015
			(thousands)		
Installments	$ 1,050	$ 1,050	$ 800	$ 300	$ 300

9. Accounts Payable

	2010	2009
	(thousands)	
Supplier payables	$ 1,539	$ 4,759
Other payables	261	1,102
	$ 1,800	$ 5,861

10. Deferred Revenue

	2010	2009
	(thousands)	
Deferred revenue, beginning of year	$ -	$ -
Deferred revenue, additions	765	-
Recognized as revenue	(88)	-
Deferred revenue, end of year	$ 677	$ -

Deferred revenue is receivable from customers to aid in the construction of certain customer-specific facilities. It is recognized as other revenue and is amortized based on the customers' revenue stream over the established period.

11. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For the purpose of estimating the fair value of these obligations at year end, a settlement period ranging from 2012 to 2022 has been assumed.

The estimated future cash flows required to settle these obligations were $4,131 thousand (2009 - $4,131 thousand), which were discounted to $2,569 thousand (2009 - $2,451 thousand) applying credit adjusted risk free rates ranging from 4.3 to 4.8 per cent (2009 - 4.3 to 4.8 per cent). The change in asset retirement obligations during the year was as follows:

	2010	2009
	(thousands)	
Asset retirement obligations, beginning of year	$ 2,451	$ 2,876
Accretion expense	118	138
Revisions in estimated cash flows	-	(563)
Asset retirement obligations, end of year	$ 2,569	$ 2,451

12. Notes Payable to Parent

	2010		2009	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5 years	$ 75,000	3.5	$ 75,000	3.5
6 - 10 years	30,000	4.5	30,000	4.5
	105,000		105,000	
Unamortized premium/discount and issue costs	1,514		2,308	
	$ 106,514		$ 107,308	

The effective interest rate on notes payable to parent was 3.8 per cent for the year (2009 - 3.8 per cent).

Maturity dates are equivalent to interest rate repricing dates.

As at December 31, 2010 principal repayments due in each of the next five years were as follows:

	2011	2012	2013	2014	2015
	(thousands)				
Principal repayments	$ -	$25,000	$50,000	$ -	$ -

13. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2009 - 120 shares) are issued and outstanding.

14. Other Revenue

	2010	2009
	(thousands)	
Natural gas and liquid sales	$ 2,126	$ 1,225
Processing fees	523	84
Transportation	51	68
Other	80	26
	$ 2,780	$ 1,403

15. Interest

	2010	2009
	(thousands)	
Interest expense on bank indebtedness	$ 719	$ 235
Interest expense on notes payable to parent	3,171	2,398
Debt retirement funds earnings	(84)	(14)
Change in fair value of debt retirement funds	(25)	1
Interest capitalized	(48)	(22)
	$ 3,733	$ 2,598

Interest paid during the year was $4,598 thousand (2009 - $2,060 thousand).

16. Amortization

	2010	2009
	(thousands)	
Property, plant and equipment	$ 1,420	$ 716
Customer capital contributions	(3)	(2)
	$ 1,417	$ 714

The composite rate of amortization (excluding amortization of customer capital contributions) was 4.5 per cent (2009 - 5.1 per cent).

17. Saskatchewan Taxes

	2010	2009
	(thousands)	
Corporate capital tax	$ 1,531	$ 1,624

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

18. Net Change in Non-Cash Working Capital

	2010	2009
	(thousands)	
Accounts receivable	$ 4,385	$ (3,728)
Intercompany accounts receivable	(3,521)	(980)
Natural gas in storage held for resale	(5,784)	(119,561)
Accounts payable	(4,061)	3,772
Intercompany accounts payable	(2,402)	2,138
Deferred revenue	677	-
	$ (10,706)	$ (118,359)

19. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Included in these financial statements are transactions and balances with SaskEnergy and its subsidiaries as follows:

	2010	2009
	(thousands)	
Revenue	$ 113,373	$ 51,564
Cost of gas sold	49,153	19,812
Operating expenses	4,327	4,900
Interest expense	3,778	2,607
Natural gas in storage held for resale	171,873	161,347
Fair value of derivative instruments assets	64,070	27,627
Fair value of derivative instruments liabilities	56	408

Amounts outstanding at year end have been shown as intercompany accounts receivable and payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control as well as non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

19. Related Party Transactions (continued)

These transactions during the year, and amounts outstanding at year end, were as follows:

	2010	2009
	(thousands)	
Operating expenses	$ 571	$ 422
Saskatchewan taxes	1,531	1,624
Accounts payable	133	1,133
Natural gas in storage held for resale	69	10

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded in the cost of those purchases.

20. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of a defined contribution pension plan. During the year the Corporation contributed $35 thousand (2009 - $39 thousand) on behalf of employees for current service.

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for Executive, management employees and members of the Communications, Energy & Paperworkers Union (CEP) Local 649 were as follows:

	2010	2009
	(thousands)	
Accrued benefit liability	$ 83	$ 86
Benefits paid during the year	42	78
Net expense	12	29

The Corporation measures its accrued benefit liability as at December 31 of each year with an actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 were:

	2010	2009
Discount rate	4.2 per cent	5.2 per cent
Long-term rate of compensation increases	3.0 per cent	3.0 per cent
Average remaining employee service life	14.8 years	13.5 years

20. Employee Future Benefits (continued)

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

21. Joint Venture

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50 per cent proportionate shares of the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility (effective December 2010), each an unincorporated joint venture:

a. Consolidated statement of financial position

	2010	2009
	(thousands)	
Current assets	$ 866	$ 62
Property, plant and equipment	26,725	16,245
Current liabilities	(872)	(3,468)
Deferred revenue	(677)	-
Investment in joint venture	$ 26,042	$ 12,839

b. Consolidated statement of loss

	2010	2009
	(thousands)	
Revenue	$ 2,684	$ 1,309
Expenses	(2,740)	(1,329)
Loss from joint venture	$ (56)	$ (20)

21. Joint Venture (continued)

c. Consolidated statement of cash flows

	2010	2009
	(thousands)	
Cash (used in) provided by operating activities	**$ (2,160)**	$ 3,472
Cash used in investing activities	**(11,101)**	(10,859)
Decrease in cash	**$ (13,261)**	$ (7,387)

22. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

Independent Auditor's Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the accompanying consolidated financial statements of SaskEnergy International Incorporated and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statements of loss and retained earnings, comprehensive loss and accumulated other comprehensive loss and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SaskEnergy International Incorporated and its subsidiaries as at December 31, 2010, its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
April 5, 2011

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Financial Position
As at December 31
(thousands of dollars)

	Notes	2010	2009
Assets			
Current assets			
Accounts receivable		$ 8	$ 6
Dividend receivable		104	-
		112	6
Long-term investments	4	29,544	29,778
		$ 29,656	$ 29,784
Liabilities and Shareholder's Equity			
Current liabilities			
Bank indebtedness		$ 3,551	$ 2,893
Accounts payable		63	160
Intercompany accounts payable		173	23
		3,787	3,076
Shareholder's equity			
Retained earnings		709	847
Accumulated other comprehensive loss	5	(4,224)	(3,523)
		(3,515)	(2,676)
Share capital	6	29,384	29,384
		25,869	26,708
		$ 29,656	$ 29,784
Commitments	7		

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Loss and Retained Earnings
Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Revenue			
Share of equity investments' net income	4	$ 571	$ 2,527
Expenses			
Operating		687	343
Interest	9	22	13
		709	356
Net (loss) income		(138)	2,171
Retained earnings (deficit), beginning of year		847	(1,324)
Retained earnings, end of year		$ 709	$ 847

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Comprehensive Loss
Years ended December 31
(thousands of dollars)

	2010	2009
Net (loss) income	$ (138)	$ 2,171
Other comprehensive loss		
Unrealized losses on translating financial statements of self-sustaining foreign operations	(701)	(239)
Comprehensive (loss) income	$ (839)	$ 1,932

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss
Years ended December 31
(thousands of dollars)

	2010	2009
Accumulated other comprehensive loss, beginning of year	$ (3,523)	$ (3,284)
Other comprehensive loss	(701)	(239)
Accumulated other comprehensive loss, end of year	$ (4,224)	$ (3,523)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	Notes	2010	2009
Operating Activities			
Net (loss) income		**$ (138)**	$ 2,171
Deduct items not requiring an outlay of cash			
Share of equity investments' net income		**(571)**	(2,527)
		(709)	(356)
Net change in non-cash working capital related to operations	10	**51**	(127)
Cash used in operating activities		**(658)**	(483)
Financing Activities			
Increase in bank indebtedness		**658**	483
Cash provided by financing activities		**658**	483
Change in cash during the year		**-**	-
Cash position, beginning of year		**-**	-
Cash position, end of year		**$ -**	$ -

(See accompanying notes)

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2010

1. Status of the Corporation

SaskEnergy International Incorporated (the Corporation) was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries: SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies:

a. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

2. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired, at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Accounts receivable and dividend receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Bank indebtedness is classified as held-for-trading. Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

c. Employees' future benefits

i. Pension plans

Eligible employees of the Corporation are members of a defined contribution pension plan. Under the multiemployer plan the Corporation's obligations are limited to making regular payments to the plan for current services. When made, these contributions are recognized in net income.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Any actuarial gains or losses are recognized in net income.

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants has confirmed that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to Canadian GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation will publish its first consolidated financial statements prepared in accordance with IFRS for the year ending December 31, 2011, along with comparative figures. The Corporation will also provide an opening balance sheet as at January 1, 2010, the date of transition to IFRS.

3. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure.

The Corporation is an investment holding company with equity investments in Chile and Mexico. Recognizing the risk inherent in these investments, its parent, SaskEnergy, has funded the Corporation entirely through share capital and a Credit Facility Agreement.

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy, which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

The Corporation's capital consists of shareholder's equity and bank indebtedness. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year. The Corporation complied with all externally imposed requirements on its capital for the year.

4. Long-Term Investments

	2010		2009	
	Amount (thousands)	Ownership (per cent)	Amount (thousands)	Ownership (per cent)
Gas Sur S.A.				
Initial investment	$ 13,784	30.0	$ 13,784	30.0
Accumulated share of net income	3,301		3,767	
Accumulated foreign currency adjustment	(917)		(854)	
	16,168		16,697	
IGASAMEX USA Ltd.				
Initial investment	10,880	40.1	10,880	40.1
Accumulated share of net income	5,907		4,870	
Dividends	(104)		-	
Accumulated foreign currency adjustment	(3,307)		(2,669)	
	13,376		13,081	
	$ 29,544		$ 29,778	

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2010 loss was $466 thousand (2009 net income - $429 thousand). The Corporation's foreign currency translation adjustment for 2010 resulted in a $63 thousand decrease in the balance of the investment in Gas Sur S.A. (2009 - $1,607 thousand increase). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2009 - $5,100 thousand).

4. Long-Term Investments (continued)

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2010 net income was $1,037 thousand (2009 - $2,098 thousand). IGASAMEX USA Ltd. declared a dividend in 2010 for $104 thousand resulting in a decrease in the balance of the investment in IGASAMEX USA Ltd. The Corporation's foreign currency translation adjustment for 2010 resulted in a $638 thousand decrease in the balance of the investment in IGASAMEX USA Ltd. (2009 - $1,846 thousand). At the time of purchase, the initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $4,800 thousand (2009 - $4,800 thousand).

5. Accumulated Other Comprehensive Loss

	2010	2009
	(thousands)	
Accumulated foreign currency translation adjustment on translating financial statements of self-sustaining foreign operations	$ (4,224)	$ (3,523)

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2009 - 2,938,432) issued and outstanding.

7. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

8. Financial Instruments and Risk Management

a. Financial instruments

The fair values of the Corporation's financial instruments, including accounts receivable, dividend receivable, bank indebtedness, accounts payable and intercompany accounts payable approximate their carrying values due to the short-term nature of these instruments.

8. Financial Instruments and Risk Management (continued)

b. Risk management

The objectives, policies and processes for managing risk were consistent with the prior year.

i. Foreign currency exchange risk

The impact of foreign currency exchange risk in relation to the Corporation's expenditures is insignificant as the majority are in Canadian currency.

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2010:

	6 months or less	7-12 months	1-2 years	3-5 years	More than 5 years
	(thousands)				
Bank indebtedness	$ 3,551	$ -	$ -	$ -	$ -
Accounts payable	63	-	-	-	-
Intercompany accounts payable	173	-	-	-	-
	$ 3,787	$ -	$ -	$ -	$ -

iii. Credit risk

The Corporation is exposed to credit risk through accounts receivable and dividend receivable. The Corporation extends credit to its counterparties in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its counterparties and may require letters of credit and other forms of security. At year end the maximum credit exposure to a single counterparty was $7 thousand (2009 - $4 thousand).

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2010	2009
	(thousands)	
Accounts receivable	$ 8	$ 6
Dividend receivable	104	-
	$ 112	$ 6

8. Financial Instruments and Risk Management (continued)

The following reflects an aging summary of the Corporation's accounts receivable:

	2010	2009
	(thousands)	
Current	$ 8	$ 6
	$ 8	$ 6

The Corporation does not have a provision for credit losses (2009 - $nil).

9. Interest Expense

During the year, the Corporation made payments for interest to the parent of $19 thousand (2009 - $15 thousand).

10. Net Change in Non-Cash Working Capital

	2010	2009
	(thousands)	
Accounts receivable	$ (2)	$ (2)
Accounts payable	(97)	23
Intercompany accounts payable	150	(148)
	$ 51	$ (127)

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2010	2009
	(thousands)	
Corporate expenses	$ (2)	$ (7)
Interest expense	22	13

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts payable on the statement of financial position.

12. Employees' Future Benefits

a. Pension plans

Eligible employees of the Corporation are members of a defined contribution pension plan. During the year, the Corporation contributed $7 thousand (2009 - $11 thousand) on behalf of employees for current services.

b. Retiring allowance plan

Certain employees of the Corporation are eligible to participate in the SaskEnergy Retiring Allowance Plan. The allocated amount of expense related to the unfunded defined benefit retiring allowance plan for management employees was $2 thousand (2009 - $3 thousand). At year end, the Corporation had no employees, and all related liabilities were settled. Therefore, there is no accrued benefit liability at year end.

SaskEnergy

1000-1777 Victoria Avenue
Regina, Saskatchewan S4P 4K5
saskenergy.com